

Message Text

CONFIDENTIAL

PAGE 01 PEKING 00446 01 OF 02 210229Z
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-07 SOE-02
CEA-01 DOE-11 INT-05 OES-07 ACDA-12 /145 W
-----103770 210246Z /75

P R 180422Z FEB 78
FM USLO PEKING
TO SECSTATE WASHDC PRIORITY 9918
INFO AMCONSUL HONG KONG
AMEMBASSY TOKYO PRIORITY
AMEMBASSY MOSCOW
CINCPAC HONO

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 0446

CINCPAC FOR POLAD

E.O. 16152: GDS
TAGS: ETRD ENRG, CH, JA

SUBJ: SINO-JAPANESE LONG TERM TRADE AGREEMENT CONCLUDED

REF: TOKYO 2384

1. SUMMARY. THE SINO-JAPANESE LONG TERM TRADE AGREEMENT, SIGNED ON
FEBRUARY 16, WILL HAVE IMPORTANT IMPLICATIONS FOR THE CHINESE ECONO-
MID DE-
VELOPMENT AND SINO-JAPANESE COOPERATION IN THE TRADE AND TECHNICAL
FIELDS. THE AGREEMENT, WHICH RUNS FOR EIGHT YEARS BEGINNING IMMEDI-
ATELY,
CALLS FOR JAPANESE IMPORTS OF CRUDE OIL, COKING COAL, AND STEAMING
COAL
VALUED AT APPROXIMATELY US \$10 BILLION AND CHINESE IMPORTS OF US \$7-8
BILLION IN WHOLE PLANTS AND TECHNOLOGY AND \$2-3 BILLION IN CONSTRUC-
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PAGE 02 PEKING 00446 01 OF 02 210229Z

TION
EQUIPMENT AND MATERIALS. THE PRECISE PLANTS AND LOCATIONS HAVE NOT
BEEN
DECIDED, AND CHINESE WHOLE PLANT PURCHASES MAY EXCEED LEVEL SPECI-
FIED
IN LTA. CHINESE WILL USE DEFERRED PAYMENTS TO PAY FOR ITS IMPORTS,
AL-

THOUGH PRECISE TERMS AND INTEREST RATES WILL BE NEGOTIATED ON A CASE-BY-CASE BASIS. JAPANESE EMBOFFS SAID THAT "APPROPRIATE INTERNATIONAL TRADE PRACTICES" PHRASEOLOGY USED IN LTA MEANT THAT THE TERMS OF THE "GENTLE-MEN'S AGREEMENT" WILL BE OBSERVED. END SUMMARY.

2. SINO-JAPANESE LONG-TERM TRADE AGREEMENT WAS SIGNED FEBRUARY 16 IN GREAT HALL OF THE PEOPLE BY LIU HSI-WEN, PRC VICE MINISTER OF FOREIGN TRADE, AND YOSHIHIRO INAYAMA, HEAD OF NIPPON STEEL AND PRESIDENT OF THE JAPAN-CHINA ASSOCIATION ON ECONOMY AND TRADE. (BOTH SIGNED IN THEIR CAPACITIES AS CHAIRMEN OF THE NEWLY-CREATED SINO-JAPANESE LONG TERM AGREEMENT COMMITTEES.) ALSO PRESENT WERE LIAO CHENG-CHIH, CCP CENTRAL COMMITTEE MEMBER AND CHAIRMAN OF SINO-JAPANESE FRIENDSHIP ASSOCIATION, FOREIGN TRADE MINISTER LI CHIANG, AND JAPANESE AMBASSADOR TO CHINA SHOJI SATO.

3. USLO OFFICERS CALLED ON JAPANESE COMMERCIAL COUNSELOR TOGETHER WITH ANOTHER JAPANESE COMMERCIAL OFFICER ON JANUARY 17 FOR BRIEFING ON LTA. WE WERE GIVEN CHINESE VERSION OF THE TEXT, AND WE UNDERSTAND JAPANESE TEXT HAS ALREADY BEEN RELEASED TO THE PRESS. FOLLOWING IS BASED ON CONFIDENTIAL

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PAGE 03 PEKING 00446 01 OF 02 210229Z

JAPANESE EMBOFFS COMMENTS AND USLO'S INFORMAL TRANSLATION OF LTA.

4. LTA PROVIDES A FRAMEWORK FOR SUBSTANTIAL EXPANSION OF TRADE, ALTHOUGH NOT ALL OF AGREEMENT WILL BE ADDITIVE TO CURRENT LEVEL. THOUGH TECHNICALLY A PRIVATE ARRANGEMENT, JAPANESE EMBOFFS AND TEXT OF AGREEMENT INDICATE LTA HAS FULL SUPPORT OF JAPANESE GOVERNMENT. THE LTA, WHICH RUNS FOR EIGHT YEARS, SPECIFIES LEVEL OF CHINESE OIL AND COAL EXPORTS AND CHINESE IMPORTS OF JAPANESE WHOLE PLANTS, TECHNOLOGY, AND CONSTRUCTION MATERIALS.

5. JAPANESE PETROLEUM AND COAL IMPORTS. LTA SPECIFIES THE FOLLOWING LEVELS FOR THE FIRST FIVE YEARS:
(UNIT: 1,000 TONS)

YEAR	OIL	COKING COAL	STEAMING COAL
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1978	7,000	150-300	150-200
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1979	7,600	500	150-200
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1980	8,000	1,000	500-600
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1981	9,500	1,500	1,000-2,000
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1982	15,000	2,000	1,500-1,700
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(COMMENT: THE COAL FIGURES ARE SOMEWHAT HIGHER THAN LEVELS INDICATED REFTEL AND MAY REPRESENT A LAST MINUTE CONCESSION TO THE CHINESE, WHO OFFERED STILL HIGHER AMOUNTS DURING THE NEGOTIATIONS).

FOR THE FIFTH YEAR TO THE EIGHTH YEAR OF THE AGREEMENT (1983-1985), THE LTA SPECIFIES THAT THE QUANTITIES OF OIL AND COAL IMPORTED BY JAPAN WILL INCREASE OVER THE LEVEL SPECIFIED IN THE FIFTH YEAR (1982), THE EXACT AMOUNTS TO BE DETERMINED IN 1981. 6. WHOLE PLANTS, EQUIPMENT, CONSTRUCTION MATERIALS. THE AGREEMENT SPECIFIES THAT FOR THE FIRST FIVE YEARS THE CHINESE WILL IMPORT TECHNOLOGY AND COMPLETE PLANTS VALUED AT SEVEN TO EIGHT BILLION US DOLLARS AND CONSTRUCTION MATERIALS WORTH TWO TO THREE BILLION US DOLLARS. THE JAPANESE EMBOFFS STATED THAT THIS ASPECT OF THE LTA WAS ONLY A BASIC FRAMEWORK. THE CHINESE HAVE NOT DECIDED WHICH PLANTS WILL BE CONSTRUCTED AND WHERE THEY WILL BE LOCATED. NEGOTIATIONS BETWEEN JAPANESE FIRMS AND THE CHINESE FTCS WILL NOW TAKE HIGH PRIORITY; THEY WILL BE CONDUCTED SEPARATELY AND WHEN EACH CONTRACT IS CONCLUDED, BOTH SIDES WILL DECIDE WHETHER TO

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PAGE 04 PEKING 00446 01 OF 02 210229Z

INCLUDE THE PLANT UNDER THE LTA (IN MOST CASES, THEY WOULD BE INCLUDED.) SEVEN OR EIGHT PLANTS ARE ALREADY MORE OR LESS AGRRED UPON, ALTHOUGH THE TOTAL MAY EXCEED THIS. MOST OF THESE PROJECTS HAVE BEEN UNDER DISCUSSION FOR SEVERAL YEARS. ONE RELATIVELY NEW PROJECT, HOWEVER, IS THE LARGE STEEL COMPLEX TO BE LLOCATED ON THE COAST NEAR SHANGHAI. A JAPANESE TEAM IS NOW IN PEKING NEGOTIATING THIS PROJECT, AND IT WILL UNDOUBTEDLY BE INCLUDED IN THE AGREEMENT. THE JAPANESE EMBOFFS ADDED THAT FROM THE CHINESE POINT OF VIEW THE WHOLE PLANT AND TECHNOLOGY FIGURES MAY BE SOMEWHAT CONSERVATIVE. THEY NOTED THAT PEKING HAS NOT COMPLETELY WORKED OUT ECONOMIC PLANS FOR THE NEXT EIGHT YEARS AND SOME INCREASE IN THE LEVEL OF CHINESE PLANT IMPORTS IS POSSIBLE. (COMMENT: ALSO, AS NOTED REFTEL, DEFERRED PAYMENT ARRANGEMENTS WOULD ALLOW CHINESE TO PURCHASE LARGER AMOUNTS DURING THE TERMS OF THE AGREEMENT). ON THE QUESTION OF CHINESE CAPABILITY TO ABSORB THIS AMOUNT OF TECHNOLOGY IN THE NEXT FEW YEARS, THE JAPANESE EMBOFFS SAID ONLY THAT THIS VARIES FROM PLACE TO PLACE DEPENDING ON THE PERSONNEL AND TECHNOLOGY INVOLVED. FOR EXAMPLE, THEY NOTED THAT CONSTRUCTION OF THE PEKING PETROCHEMICAL COMPLEX HAD PROCEEDED SMBEHLY, WHILE A SIMILAR PROJECT IN SHANGHAI WAS PLAGUED WITH DIFF-ICULTIES.

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PAGE 01 PEKING 00446 02 OF 02 210209Z
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C O N F I D E N T I A L SECTION 2 OF 2 PEKING 0446

CINCPAC FOR POLAD

7. FINANCING ARRANGEMENTS. THE AGREEMENT STATES THAT THE
TWO SIDES AGREED TO USE "DEFERRED PAYMENTS) FOR THE EXPORTS OF
JAPANESE

TECHNOLOGY, COMPLETE PLANTS AND CONSTRUCTION EQUIPMENT TO CHINA.
CONTR-
ACTS SIGNED EACH YEAR WILL BE AT A FIXED EXCHANGE RATE. EACH SIDE
WILL
DESIGNATE A FOREIGN EXCHANGE BANK (THE BANK OF CHINA AND THE BANK OF
TOKYO) AND THE TWO BANKS WILL JOINTLY CARRY OUT THE NECESSARY
"STATISTICAL PROCEDURES". THE JAPANESE EMBOFFS SAID THERE WAS NO
AGREEMENT ON INTEREST RATES, WHICH WILL BE NEGOTIATED SEPARATELY FOR
EACH CONTRACT. THEY CONFIRMED THAT NO JAPANESE BANKERS WERE ON
THE DELEGATION. THE PHRASE "APPROPRIATE INTERNATIONAL TRADE PRACTICES
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CONTAINED IN THE AGREEMENT IS INTENDED TO INCLUDE THE OECD "GENTLEMEN
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PAGE 02 PEKING 00446 02 OF 02 210209Z

AGREEMENT" ACCORDING TO THE JAPANESE EMBOFFS.

8. OTHER PROVISIONS. THE AGREEMENT HAS A CLAUSE CALLING FOR
TECHNICAL AND SCIENTIFIC COOPERATION, BUT THE EMBOFFS STATED
THIS HAS NO SPECIAL SIGNIFICANCE BEYON WHAT IS ALREADY BEING DONE.
HOWEVER, THEY NOTED THAT CHINESE ARE VERY INTERESTED IN CONTINUING
THESE
EXCHANGES; FOR EXAMPLE, THEY HAVE REQUESTED JAPANESE ACCEPTANCE OF
100
CHINESE TRAINEES IN THE JAPANESE AUTOMOBILE INDUSTRY. THE AGREEMENT
CREATES ORGANIZATION KNOWN AS THE SINO-JAPANESE LONG TERM TRADE
AGREEMENT

COMMITTEE IN PEKING AND TOKYO. LIU HSI-WEN AND INAYAMA ARE THE RESPECTIVE CHAIRMEN. IN ORDER TO IMPLEMENT THE AGREEMENT, THE COMMITTEE WILL HOLD TALKS IN ALTERNATE YEARS IN THE TWO CAPITALS.

9. THE JAPANESE EMBOFFS INDICATED THAT, IN VIEW OF THE MASSIVE AMOUNTS OF TECHNOLOGY WHICH WOULD BE TRANSFERRED UNDER THIS AGREEMENT, THEIR INDUSTRIALISTS WERE CONCERNED ABOUT THE QUESTION OF PROTECTION OF INDUSTRIAL PROPERTY (PATENTS, ETC.) WHEN THE JAPANESE SIDE RAISED THIS QUESTION LAST FALL, THE CHINESE INDICATED THE PROBLEM WAS "UNDER STUDY." DURING THE JUST CONCLUDED TALKS, HOWEVER, THE CHINESE APPARENTLY GAVE THE JAPANESE SOME KIND OF VERBAL ASSURANCE THAT THE PROBLEM WOULD BE RESOLVED. (THE JAPANESE EMBOFFS REFERRED OBLIQUELY TO THE POSSIBILITY OF AN INDUSTRIAL PROPERTY AGREEMENT.)

10. COMMENT: KEEPING IN MIND CAVEAT (REFTEL, PARA 10) CONCERNING JAPAN'S ABILITY TO IMPORT THE AMOUNTS OF CHINESE OIL CONTEMPLATED BY THE
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PAGE 03 PEKING 00446 02 OF 02 210209Z

AGREEMENT, AND THE APPARENT LACK OF AGREEMENT TO DATE ON FINANCING ARRANGEMENTS, WE SEE THE LTA AS A MAJOR ACHIEVEMENT IN SINO-JAPANESE RELATIONS, WITH BROAD IMPLICATIONS FOR CHINESE ECONOMIC DEVELOPMENT AND FOR OTHER COUNTRIES IN THE REGION AS WELL. IN THE FIRST PLACE, THE AGREEMENT ASSURES THAT JAPANESE TECHNOLOGY WILL CONTINUE TO PLAY A LEADING AND DOMINANT ROLE IN CHINESE DEVELOPMENT. CONTACTS BETWEEN THE TWO SIDES DEVELOPED UNDER THIS AGREEMENT, BOTH IN PEKING AND IN PLANT CONSTRUCTION SITES THROUGHOUT CHINA, WILL BE FAR MORE NUMEROUS AND PERVASIVE THAN THOSE WITH ANY OTHER FOREIGN COUNTRY, AND SINO-JAPANESE INSTITUTIONAL ARRANGEMENTS FOR CONDUCTING TRADE WILL BE THE MOST EXTENSIVE OF ANY OF PRC'S NON-COMMUNIST TRADING PARTNERS. IF PRC EXPERIENCES DIFFICULTIES IN SUPPLYING THE AMOUNTS OF COAL OR OIL SPECIFIED IN THE AGREEMENT DUE TO GROWING DOMESTIC REQUIREMENTS, THIS WILL AFFECT PRC ABILITY TO FURNISH OIL TO OTHER TRADE PARTNERS. FINALLY, CONCLUSION OF THIS AGREEMENT IS AN IMPORTANT STEP IN COMPLETING THE CHINESE ECONOMIC PLANNING PROCESS FOR THE NEXT THREE YEARS AND FOR THE SIXTH FIVE YEAR PLAN PERIOD. SINCE THE LTA IS ESSENTIALLY A SELF-CONTAINED AND BALANCED ARRANGEMENT, PRC RAW MATERIALS IMPORT REQUIREMENTS AND WHOLE PLANT IMPORTS FROM OTHER COUNTRIES CAN BE FINANCED OUT OF OTHER CURRENT FOREIGN EXCHANGE HOLDINGS AND EXPORT EARNINGS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE, AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PEKING00446
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780077-0608
Format: TEL
From: PEKING
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780237/aaaabfci.tel
Line Count: 276
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: efe607d4-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 TOKYO 2384
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 13 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3547798
Secure: OPEN
Status: NATIVE
Subject: SINO-JAPANESE LONG TERM TRADE AGREEMENT CONCLUDED
TAGS: ETRD, ENRG, CH, JA
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/efe607d4-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014